



**FORUM ON TAX ADMINISTRATION:  
SMALL/MEDIUM ENTERPRISE (SME)  
COMPLIANCE SUB-GROUP**

**Background Note**

**Selected revenue body and other experience with  
implementing risk treatment evaluation**

**November 2010**

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## **ABOUT THIS DOCUMENT**

### ***Purpose***

This companion note has been prepared to assist member revenue bodies with evaluation of their risk treatment strategies. It should be read in conjunction with the Forum's guidance note—*Evaluating the Effectiveness of Compliance Risk Treatment Strategies*—published in xxxxxxxx.

### ***Background to the Forum on Tax Administration***

The Forum on Tax Administration (FTA) was created by the Committee on Fiscal Affairs (CFA) in July 2002. Since then the FTA has grown to become a unique forum on tax administration for the heads of revenue bodies and their teams from OECD and selected non-OECD countries.

In 2009, participating countries developed the *FTA vision* setting out that... *The FTA vision is to create a forum through which tax administrators can identify, discuss and influence relevant global trends and develop new ideas to enhance tax administration around the world.* This vision is underpinned by the FTA's key aim which is to...*improve taxpayer services and tax compliance – by helping revenue bodies increase the efficiency, effectiveness and fairness of tax administration and reduce the costs of compliance.*

To help carry out its mandate, the FTA is directly supported by two specialist sub-groups—Compliance and Taxpayer Services—that each carry out a program of work agreed by members. Both OECD and selected non-OECD countries participate in the work of the FTA and its sub-groups.

The Compliance Sub-group's mandate, in broad terms, is to provide a forum for members to:

- periodically monitor and report on trends in compliance approaches, strategies and activities;
- consider and compare members' compliance objectives, the strategies to achieve those objectives and the underlying behavioural compliance models and assumptions being used;
- consider and compare member compliance structures, systems and management, and staff skills and training; and
- develop and maintain papers describing good country practices as well as develop discussion papers on emerging trends and innovative approaches.

Since its inception, the Sub-group has focused its work on issues associated with improving the tax compliance of small to medium enterprise (SME) taxpayers.

### ***Caveat***

National revenue bodies face a varied environment within which to administer their taxation system. Jurisdictions differ in respect of their policy and legislative environment and their administrative practices and culture. As such, a standard approach to tax administration may be neither practicable nor desirable in a particular instance.

The documents forming the OECD tax guidance series need to be interpreted with this in mind. Care should always be taken when considering a country's practices to fully appreciate the complex factors that have shaped a particular approach.

### ***Inquiries and further information***

Inquiries concerning any matters raised in this background note should be directed to Sean Moriarty (Head, International Co-operation and Tax Administration Division) at e-mail (Sean.Moriarty@oecd.org).

## Selected revenue body and other experience with implementing risk treatment evaluation

### Background

1. At meetings of the Compliance Sub-group in both 2008 and 2009, members acknowledged that there was a critical gap in the detailed practical guidance available to revenue bodies for fully implementing the recommended risk management process. The subject of this gap was the practical approaches and methods that could be used for systematically evaluating the effectiveness of specific compliance risk treatment strategies. However, it was acknowledged that work was underway by both the Australian Taxation Office (ATO)<sup>1</sup> and by European Commission (EC) (as part of its Fiscalis program<sup>2</sup>) to develop practical guidance in this area which might serve as valuable input to guidance that the sub-group could prepare. Members accordingly agreed to initiate work to develop a set of practical guidance in this field.
2. In giving direction for this work members requested that the guidance should build on work already done in this field, limited as it is, and not aim for absolute precision, recognising that evaluation in the field of taxpayers' compliance was 'more of an art than a science'. Furthermore, it should encompass ideas for its practical implementation in an organisational sense and, in particular, should: 1) be oriented towards senior managers (as opposed to technicians); 2) be practical and not too academic; 3) have a clear 'outcomes' orientation; 4) provide an overview of measurement approaches that are feasible; and 5) be supported by good case study examples to demonstrate the recommended techniques.
3. The recommended guidance is set out in the accompanying guidance note '*Evaluating the effectiveness of compliance risk treatment strategies*'. This note aims to complement that guidance by describing practical aspects of the approaches and experiences of other bodies and a few selected revenue bodies in implementing risk treatment evaluation in their own administrations.

### Introduction

4. After some observations of the approaches of other parts of government, this information note deals primarily with the approaches and experiences of a small number of revenue bodies in establishing a more systematic approach to the evaluation of their compliance strategies.
5. As evaluation in a tax compliance context is still a relatively immature and evolving practice in only few revenue bodies the content should not in any sense be regarded as definitive or complete. Rather, it reflects the early approaches and experiences of pioneering efforts by a few selected revenue bodies to better understand the impacts/ effectiveness of their compliance strategies.

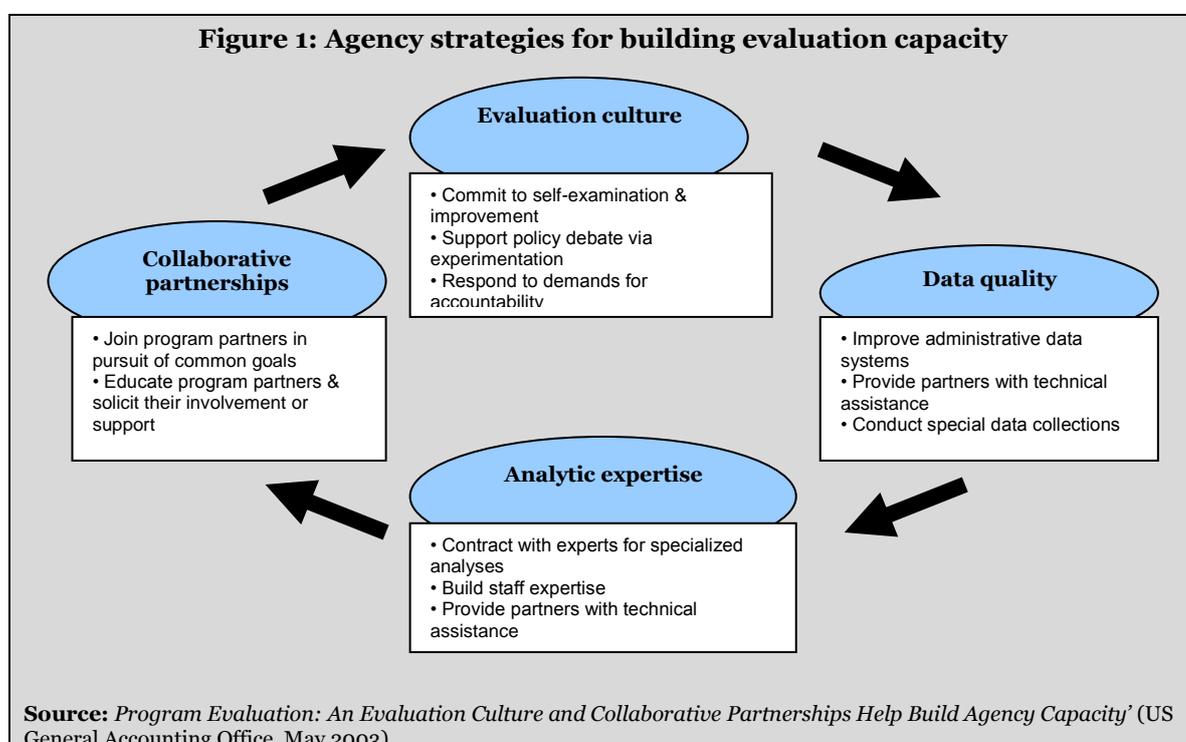
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<sup>1</sup> The ATO published its practical guidance material on methodologies for measuring the effectiveness of its compliance strategies commenced in August 2008. Copies of these can be found at: <http://www.ato.gov.au/complianceeffectiveness>

<sup>2</sup> Officials working as part of the European Commission's Fiscalis program included guidance on evaluation as part of a Compliance Risk Management Guide for Tax Administrations, a revised edition of which was published in March 2010 —see [http://ec.europa.eu/taxation\\_customs/resources/documents/common/publications/info\\_docs/taxation/risk\\_managt\\_guide\\_en.pdf](http://ec.europa.eu/taxation_customs/resources/documents/common/publications/info_docs/taxation/risk_managt_guide_en.pdf)

## Experience from other areas of government

6. The research conducted leading up to the preparation of this note revealed only limited material on the experiences of other government agencies in embedding evaluation as a management practice. A report produced by the US General Accounting Office (GAO) was perhaps the most insightful of the materials reviewed<sup>3</sup>.
7. In their work, the GAO examined the experiences of five agencies that had demonstrated evaluation capacity in their performance reports. The work was carried out to assist other agencies improve the credibility of their performance information and to improve their capacity to rigorously evaluate program results.
8. The GAO's report noted that four main elements of evaluation were apparent across the agencies reviewed, although they took varied forms in practice:
  - *Evaluation culture*—agencies demonstrated an evaluation culture through a commitment to self-examination and learning through experimentation;
  - *Data quality*—agencies took steps to ensure the accuracy and reliability of data obtained through monitoring and evaluation;
  - *Analytic expertise*—agencies sought access to analytic expertise to ensure assessments of programs results would be systematic, credible and objective; and
  - *Collaborative partnerships*—agencies used these partnerships to leverage resources and expertise, and for obtaining performance information.
9. The GAO's report also gave attention to identifying agencies' strategies for building their evaluation capacity and identified four common and critical elements. This overall approach is depicted in Figure 1.



<sup>3</sup> See *Program Evaluation: An Evaluation Culture and Collaborative Partnerships Help Build Agency Capacity* (US General Accounting Office, May 2003).

10. First, agency managers sustained a commitment to accountability and to improving program performance to institutionalize an evaluation culture. Specifically, the agencies studied had a formal regular process in place to plan, implement and use information from evaluations. The GAO's report noted that the agencies reviewed did not appear to deliberately set out to develop an evaluation culture. Rather, largely as a result of agency leadership and the involvement of oversight bodies, a systematic and reinforcing process of self examination and improvement evolved over time.
11. Second, agencies took concrete steps to improve their administrative systems or turned to special data collections to obtain better quality data. GAO noted that initiating new data collection might be warranted by constraints in existing data systems or the excessive cost of modifying those systems. (Although not referenced in the GAO's report an obvious example of this is the increasing investment by government bodies in data warehouse technology and data mining tools to improve their analytical potential.)
12. Third, the agencies invested in training staff in research and evaluation methods or obtaining such expertise from external sources. Where needed for rigorous analyses, agencies engaged people with research expertise and subject matter expertise to ensure the appropriate interpretation of study findings. GAO found that many of the agencies maintained a sizeable in-house cadre of skilled analysts.
13. Finally, to leverage their evaluation resources and expertise, agencies engaged in collaborations or actively educated and solicited the support and involvement of their program partners and stakeholders.
14. In its final observations, GAO emphasised that regardless of whether evaluation was an intrinsic part of an agency's history or was driven by new external forces.... *'Learning from evaluation allowed for continuous improvement in operations and programs, and the advancement of a knowledge base. In addition, each agency tied evaluation efforts to accountability demands fostered by the Government Performance and Results Act (GPRA) 1993'*.

## **Experience from selected revenue bodies**

### ***Getting organised to implement compliance evaluation***

15. Drawing on the available literature, the successful implementation of a system of evaluation requires a considerable investment of time and effort. As for any initiative requiring major cultural change, there must careful planning, a good level of communication and a phased approach to the development of expertise and operating arrangements and their integration into "business as usual" operations.
16. In the case of the Australian Taxation Office, the impetus for change emerged in 2006. At the time, senior management recognised that while it had taken many steps to improve the operational efficiency of its compliance programs it did not have a structured and systematic process in place to assess the impacts of its compliance strategies in relation to its goals of improving voluntary compliance and building community confidence. Accordingly, it decided to refocus its efforts and develop a robust and consistent process for evaluating the effectiveness of its compliance strategies.
17. In its comments prepared for this work, the ATO noted that implementing its evaluation system was seen from the outset as requiring a considerable effort over a fair period of time. Commencing with a project team, it adopted a progressive staged approach, involving four main phases that are elaborated in Table 1.

**Table 1. Phases in the ATO’s development of risk treatment evaluation**

<p><b>DISCOVER PHASE</b></p> <p>The project team conducted a thorough survey and stock-take of the performance indicators used in the ATO. As a result of the traditional focus on efficiency, it discovered that most of the performance indicators used were activity based and outputs focused (how well it did things), rather than indicators of effectiveness (what impact did it have).</p> <p>The second step involved a literature review which identified the information available on the development of compliance effectiveness measures, both nationally and internationally. The team reviewed this information for its relevance to the ATO environment, and discovered many useful insights – including various measurement frameworks and models, examples of effectiveness indicators, and a range of collection and analysis methods.</p>
<p><b>BUILD PHASE</b></p> <p>The ATO’s aim in the build phase was to embed effectiveness thinking into its administration so effectiveness became part of business-as-usual at the ATO. Consistent with its collaborative, consultative and co-design philosophy, the project team engaged with business lines and leadership forums, assisted lines with integrating the framework into their existing compliance risk processes and tools, delivered support to lines in applying the methodology to their priority risks, and provided guidance material and training to line staff on how to apply the framework. It also created cross-business line communities of practice for staff to share information, build knowledge, develop expertise and solve problems.</p>
<p><b>DESIGN PHASE</b></p> <p>The discovery phase highlighted the need for organisations to have a framework which defines and establishes the structure of the measurement process – and which needs to be embedded in their business model, and planning, reporting, risk management and intelligence processes.</p> <p>In the design phase, the project team created a conceptual framework which reflected these requirements and was fundamental to the delivery of the ATO’s Strategic Statement and to achieving its business intent. It then tested the compliance effectiveness framework by piloting our methodology with key risk owners to prove the concept worked in practice.</p>
<p><b>EMBED PHASE</b></p> <p>Three years into the journey, the ATO has transitioned to this final phase of implementation, where responsibility for the ongoing measurement of compliance effectiveness has been accepted by business lines on a business-as-usual basis. At the same time, the project team’s responsibilities for providing full support to business lines diminished, and the project transitioned to a smaller centre of expertise (CoE) established in mid-2009 (see role statement in Box 1).</p> <p>The CoE is tasked primarily with giving expert guidance on the application of compliance effectiveness and providing assurance reports to our executive on the health of the system. The CoE has the added corporate role of maintaining the compliance effectiveness framework to ensure its continued currency and relevance and to help keep the ATO abreast of developments in compliance performance evaluation. To ensure its “ownership” by the business lines it is formally attached, in an organisational sense to a business line and will be rotated between business lines every two years.</p>

18. With the business lines now responsible for the ongoing capability required to evaluate the effectiveness of their compliance strategies and the creation of the Centre of Expertise in mid-2009, there is now a single leadership forum composed of senior executive nominees from each business line to enable strategic discussions between business lines to support the continued application of the compliance effectiveness methodology and its

integration into business-as-usual. Box 1 sets out the role statement of the ATO's Centre of Expertise.

**Box 1. Compliance Effectiveness Centre of Expertise (CoE)–  
role statement**

**Ownership**

The CoE is part of the Compliance Sub-plan and will be accommodated within one of the sub-plan's business lines. Ownership of the CoE will rotate between Compliance Sub-plan business lines every two years to maintain the focus and momentum on compliance effectiveness throughout the sub-plan.

**Role**

The CoE leads the compliance effectiveness capability in the Compliance Sub-plan. Its primary role is to support the application of the methodology as a business-as-usual activity. The centre enables the ATO to remain a leader in measuring compliance effectiveness and share insights gained from experience.

**CoE functions**

***Support the facilitation and evaluation communities of practice by providing:***

- Expert help and advice to staff performing facilitation and evaluation functions.
- Administrative support to these communities of practice.

***Provide advice primarily on novel or complex matters***

***Maintain the compliance effectiveness methodology***

- Ensure the methodology's continued currency and relevance.
- Keep the ATO abreast of national and international developments in compliance effectiveness.

***Maintain and develop compliance effectiveness products***

- Ensure currency of products.
- Maintain relevant information on internet and intranet sites.
- Design, develop and publish new products.

***Client relationship management and communication***

- Build and sustain key stakeholder relationships.
- Communicate key messages to internal and external audiences.
- Respond to enquiries from internal stakeholders and external organisations.

***Monitor and report***

- Monitor the application of the methodology across the Compliance Sub-plan and escalate any issues with suggested remedies.

Source: ATO

19. For Denmark, there are both similarities and differences in the approach adopted to date for implementing evaluation.
20. The Danish Tax and Customs Administration (SKAT) has focussed exclusively on the measurement of 'outcomes' rather than 'outputs' since 2007. This change to accounting for the performance of the revenue body came about in connection with a large reduction in staff and resources projected for the years 2006-2010. Staff numbers were to be reduced by 25% and overall resources by 30%. It was considered by management and external stakeholders alike that it was not possible to achieve the required efficiency gains by working (and measuring) in the same ways. Consequently the previous output measure in the annual contract with Parliament was replaced by a 'tax gap' measure and customer satisfaction and attitude indexes. Both of these health-of-system measures were to remain stable in spite of cutbacks.
21. Closely tied to this change in performance management regime was a change in SKAT's strategic approach. Building on the Forum's 2004 guidance note and other

sources of inspiration, it designed and implemented a new compliance strategy and a complementary framework for compliance risk management that has had important implications for how compliance activities are organised and carried out:

- Compliance activities have for the past two years been organised as project-oriented treatments addressing patterns and causes of non-compliance. Priorities are first defined on the basis of systematic risk assessment. Projects are then designed and implemented by regional staff to address the risks by the most appropriate instruments available. These projects can be either relatively large-scale nationwide treatments, regional treatments very varied in size or pilots designed to probe into the nature of a risk or test the effectiveness of a treatment. Lessons learnt are fed into the risk analysis and future projects.
- All projects are subject to outcome evaluation. Given the large portfolio of projects, however, it is not feasible to carry out conclusive outcome evaluations for all projects. Instead a pragmatic approach is taken to outcome evaluation. All projects are required to define success criteria and means of verification, but demands on methodology are higher on large-scale nationwide projects than on regional projects with lesser resources involved. Large-scale projects are required to deliver outcome evaluations that come close to isolating the outcome while smaller projects often evaluate the impact on the basis of indicators.
- An expert function, including capabilities with outcome evaluation, has been set up in the headquarters to support the projects. The expert function closely follows the nationwide projects and is responsible for carrying out evaluations that isolate (or come close to isolating) outcomes for a number of hand-picked projects. Around six conclusive outcome evaluations are carried out each year.
- A strong effort has also been undertaken with capacity building. Around 30 regional compliance officers – equally distributed across six tax regions – received entry-level training in statistics and evaluation in 2008, while an additional 15 regional compliance officers have received training in each year since then. These internally trained evaluators have since then been supporting regional projects. They exchange experiences and receive supplementary training in a network facilitated by the expert function. There are plans to further develop capability through entry-level and intermediate-level training.
- Building a compliance risk management culture (including an evaluation culture) is as important and demanding as building the technical capacity for outcome evaluation. Therefore, the capacity building involves a thorough introduction to the compliance strategy and the compliance risk management framework in which outcome evaluation is rooted. Experience has shown that the internally trained evaluators spend about half of their resources communicating practical implications of the compliance strategy and supporting other aspects of the treatment projects than outcome evaluation itself.

22. Both the Australian and Danish experiences seem worthy of closer examination by revenue bodies wishing to enhance their own evaluation arrangements.

### ***Organisational promotion, support and engagement***

23. As for any major cultural change within an organisation, the stimulus and momentum around implementing new evaluation arrangements system requires support and corporate direction from the highest levels of the organisation. More broadly, there has also been greater emphasis generally on effectiveness thinking as a matter of government policy: effectiveness thinking is featuring more prominently in ‘whole-of-government’ initiatives and potential reforms of public sector practices.
24. Organisational promotion and support for implementing compliance evaluation occurs at a number of levels – at the corporate level, and at the sub-plan and business line levels – and through various channels and forums, both internal and external, using the following sorts of approaches.

- Speeches and presentations by senior executives, including the head of the revenue body to internal and external forums;
- Reference to the compliance effectiveness evaluation outcomes from specific risk treatments are made regularly in a number of publicly available corporate documents—in the case of the ATO, these include its annual Compliance Program (the annual work program of the Compliance Sub-plan), and the annual report to Government while in the case of SKAT these have included its annual report and special publications such as ‘*Adapting to Changing Circumstances*’ (October 2009) that describes its new approach and some early learnings—see <http://www.itdweb.org/Pages/Search.aspx?lang=3&st=6&sort=2&c=55>
- In the case of the ATO, promotional videos providing strategic direction to staff in the Compliance Sub-plan on the purpose and benefits of our compliance evaluation system.

### ***Communication, staff education, training and development***

25. The initial communication strategy, during the project phase of implementation, centred on the development of information products which informed and educated both staff as well as external clients about our compliance effectiveness framework and its application.
26. The CoE’s communication strategy is more aligned to maintaining and developing our suite of publications, informing users of the benefit of applying the ATO’s compliance effectiveness methodology – and allowing users to interact as a community and share knowledge and build capability – and updating our framework by keeping the organisation abreast of developments in compliance effectiveness evaluation.
27. Key elements of the ATO’s communication strategy have included:
  - *Meetings*: Personal briefings and presentations were given to meetings of various business line, Compliance Sub-plan and corporate forums
  - *Websites*: A site on its Intranet, accessible by all staff, devoted to compliance effectiveness; the site features a strategic statement by the Commissioner, a promotional video, introduction to the methodology, support tools and publications, and corporate and business line contact points;
  - *Publications*: A range of products have been produced which target different users and audiences, including informational booklets for general staff or external users and instructional products which offer practical guidance and templates for risk managers, and evaluators etc (see Annex 3 for more details);
  - *Newsletters*: Articles in the staff corporate newsletter were published at key implementation stages, or when significant changes had relevance beyond the Compliance Sub-plan and needed to be communicated;
  - *Videos*: Short video presentations were made featuring senior executives championing compliance effectiveness; these videos are highlighted on our Intranet site and in some online products (such as an introductory guide delivered to staff);
  - *Help desk*: The project team (and later centre of expertise) provided on-the-phone and other support to business lines and other staff with enquiries or requests, and utilised a single shared mailbox (email) to channel and manage electronic communication.
28. Having a strong capability is crucial to the successful implementation of our compliance effectiveness framework. The case for a separate capability to manage measurement of compliance effectiveness is supported by the high level of skills required in this process.

29. The ATO's strategy required each business line to identify and develop the particular skills and capability required to properly apply the compliance effectiveness methodology to their risks undergoing evaluation; most evaluations start with a facilitated workshop which bring together the key stakeholders (such as risk managers, intelligence and data analysts, and evaluators).
30. Comprehensive training in the methodology is necessary, particularly where appropriately skilled and experienced staff are not involved. The project team, especially when the framework was first implemented, provided specialised workshops, training and information products to business lines in order to assist them develop their evaluation and workshop facilitation capabilities. As business lines progressively built up their facilitation and evaluation capabilities by applying the methodology to increasing numbers of risks, supported by the project's teams quality assurance of outputs, the level of assistance provided by the project team diminished commensurately.
31. In addition to corporate and business line driven development, the ATO recognised the need for communities of practice (CoPs) to involve staff at the practitioner level. Two CoPs were established: one for business line representatives who are responsible for the lines' strategies for integrating the compliance effectiveness framework; the other CoP is aimed primarily at facilitators, evaluators, data analysts and others who have a role in evaluating compliance effectiveness. Both are forums where groups of peers with a common sense of purpose work together to share information, build knowledge, develop expertise, and solve problems.
32. For its part, Denmark's strategy has focused on the development of a cadre of experts in its headquarters to support the work of business areas and to carry out evaluations for the more important compliance strategies, including nationwide treatments. Around six such evaluations are carried out each year. As noted earlier in this note, it has also established a regional capability to support projects at the regional level.

### ***Administrative and data systems***

33. On this particular aspect, the ATO advised that various information management systems and technologies, both commercial-of-the-shelf and custom, are employed in supporting its compliance activities and evaluation, including:
  - ATO client accounting and case management systems;
  - enterprise data warehouse;
  - operational analytical models and risk engines;
  - audit case selection, compliance activity and data matching tools; and
  - common business applications such as Internet and internal Intranet systems, as well as Microsoft Access, Excel and Outlook.
34. Risk managers and compliance teams within business lines typically call upon other specialist areas to assist in sourcing and analysing data and information. These areas may be available within their business line, such as areas devoted to risk management, intelligence and analytics, or corporate areas which have a more strategic focus such as Revenue Analysis Branch, Economist Practice, and Corporate Research (which, among other things, conducts regular and ad hoc surveys of taxpayers, intermediaries, and other populations). In addition, the ATO also uses external and third party data sources, including corporate regulators, the Australian Bureau of Statistics, and state and overseas revenue bodies.

### ***Issues and challenges***

35. In reporting on its experience to date, the ATO noted a number of issues and challenges for the future:

### *Accountability and governance*

- Ideally, performance measures must be set in the context of an organisation, the results of the measures followed through, and the system itself evaluated. Importantly, the results have to be objectively shared and assessed as part of the corporate decision-making and learning process. In practice, the ATO has seen some “misfiring” in this respect, with particular risk owners having a tendency to tell only the ‘good story’ about either the outcomes of their effectiveness evaluation or the performance of their lines’ implementation of the framework, or both. Organisational learning is diminished or thwarted when full and factual results — including ‘negative’ or unexpected results — derived from the evaluation system are not impartially presented and reviewed, or when the agreed evaluation system is imperfectly implemented or incorrectly applied.
- With the above in mind, the ATO has faced some challenges in strengthening the accountability for compliance effectiveness evaluation by implementing an agreed assurance framework. The intent of this assurance framework is for it to be simple but robust so business lines are able to provide the Compliance Executive with an overall and regular ‘health of the system’ assessment for compliance effectiveness. The difficulties in designing the framework have occurred only recently, following the transition and accountability for compliance effectiveness evaluation from the project to the business lines.
- Responsibility for applying compliance effectiveness to compliance risks sits with the business lines. Therefore, there needs to be a decision-making and quality assurance point within the business line to ensure that there is control over how, and to what extent, the methodology is being applied.

### *Organisational promotion, support and engagement*

- The level of management’s attention directed in favour of implementing the framework and applying the methodology has at times varied markedly between business lines. Putting aside the normal and unavoidable corporate dynamics such as resource constraints, a factor in this variation could be a lack of acceptance and perceived worth of the framework itself. This suggests the need for continuing efforts to sell the virtues of the framework at all levels, including to middle and upper management.
- Some business lines have perceived the compliance effectiveness framework as an add-on to their risk management process; however, the framework is designed to be complementary. The concern over an additional workload to measure effectiveness has seen some business lines being less engaged.
- There is a tendency for business lines to want to fast-track measuring compliance effectiveness and immediately start developing indicators, rather than go through the upfront planning phases (phases 1 and 2 of the methodology). The value that the earlier phases provides is a better understanding of the risk, its participants and drivers, which allows for more informed strategies to be developed and the resulting evaluation to be more meaningful.
- All of these experiences indicate that it takes time to change the organisational culture and build the capability required by users of the framework in order to reap the benefits from complete integration and utilisation of the evaluation framework.

### *Communication, staff education, training and development*

- It is important for staff at all levels of the organisation to understand the concept of compliance effectiveness evaluation and how it can help them contribute to the delivery of our business intent. A lack of understanding by staff has sometimes led to the concept being undervalued, misused or ignored.

- As well as ensuring co-ordination when introducing a new compliance effectiveness framework, there is the issue of maintaining the process. Whilst initial training was provided by the project team so as to establish a solid capability base, the challenge for business lines will be to maintain and build the capability and properly manage their succession planning in order to have adequate capacity to carry out their evaluations.

#### *Administrative and data systems*

- The ATO is exploring the feasibility of centralising and maintaining certain information derived from evaluations in order to assist and inform other current and future evaluations. Where it makes sense, and is practicable and cost effective, centralising some information management functions will hopefully shift part of the burden from business lines, particularly the smaller or resource challenged lines.
- The ATO has learnt the importance of involving data analysts early from the beginning of the evaluation so as to determine early on whether the required data exists to develop the effectiveness indicators.

#### *Strategic and operational planning and review*

- In addition to the challenges facing development of an assurance framework mentioned earlier, the ATO is also endeavouring to influence and strengthen existing corporate reporting mechanisms to tell the effectiveness stories and the impacts it is having on taxpayers' compliance behaviours.
- The ATO is currently developing further ways in which compliance effectiveness reporting can be integrated within natural reporting systems, and is also looking at adopting a set of principles for selection of risks to ensure there is consistency in the application of compliance effectiveness across the organisation; there are also plans to progress regular reporting on effectiveness for these risks.
- Observing changes in behaviour may take a number of years or business cycles, and requires the commitment of resources over the immediate, intermediate and long terms; it takes time to measure effectiveness and determine whether improvements to compliance are sustained.
- Measuring (evaluating) compliance effectiveness is not an exact science and focuses on painting a defensible rather than a definitive picture; we have learnt that effectiveness indicators complement efficiency indicators. It has been difficult in shifting the mindset of some managers away from thinking in purely efficiency or blunt revenue terms.
- Priority risks – Amongst its business lines, the ATO is seeing management attention focussing on their *priority* risks which will receive the primary investment in terms of evaluating effectiveness; in part this is in response to increasing demands on limited resources and corporate rationalisations. Business lines' other risks should subject a minimum level of effectiveness evaluation given they follow their lines' standard risk management processes and products, many of which have been modified to incorporate compliance effectiveness principles.

#### *Future directions/ developments*

- The ATO regards ongoing investment in further research and development as critical to ensure its approach remains contemporary and useful, that it regularly reviews and updates its framework, and ensures this is communicated to users and stakeholders by maintaining effective communications and useful products:

- A new research project is looking at what developments may have taken place (since the time of the publication of the *Literature review* in early 2007); and
- The ATO will seek to learn what others are doing in terms of measuring or evaluating compliance effectiveness and determine where the ATO is positioned relative to other revenue administrations.

## References on evaluation

### 1) Australian Taxation Office's evaluation-related products

*An overview of our methodology and its development*

Outlines the ATO's compliance effectiveness methodology, its development, application and implementation. See [Measuring compliance effectiveness – Our methodology NAT 72341 \(PDF, 270KB\)](#)

*A guide to applying the methodology, for use in facilitated workshops*

Guides workshop participants through the four phases of the ATO's compliance effectiveness methodology. See [Measuring compliance effectiveness – Applying our methodology NAT 72342 \(PDF, 220KB\)](#)

*A guide to developing effective compliance strategies*

Assists compliance staff in analysing compliance behaviour and the various factors which can drive this behaviour, as they design and implement compliance strategies. The guidance information is complemented with a series of case studies. See [Developing effective compliance strategies](#)

*A review of literature on measuring compliance effectiveness*

Reviews Australian and international literature on measuring effectiveness with an emphasis on how the concepts have been used by revenue bodies. See [Literature Review - Measuring compliance effectiveness – 2007](#)

### 2) European Union

The European Commission's Fiscalis program has prepared practical guidance on risk management, including evaluation, as part of a Compliance Risk Management Guide for Tax Administrations, a revised edition of which was published in March 2010 –see

[http://ec.europa.eu/taxation\\_customs/resources/documents/common/publications/info\\_docs/taxation/risk\\_m\\_anagt\\_guide\\_en.pdf](http://ec.europa.eu/taxation_customs/resources/documents/common/publications/info_docs/taxation/risk_m_anagt_guide_en.pdf)

### 3) UK Treasury

*THE GREEN BOOK: Appraisal and Evaluation in Central Government (UK Treasury)*

This guidance is designed to promote efficient policy development and resource allocation across government.

See [http://www.hm-treasury.gov.uk/d/green\\_book\\_complete.pdf?bcsi\\_scan\\_3CB14DF0471C3DC0=0&bcsi\\_scan\\_filename=green\\_book\\_complete.pdf](http://www.hm-treasury.gov.uk/d/green_book_complete.pdf?bcsi_scan_3CB14DF0471C3DC0=0&bcsi_scan_filename=green_book_complete.pdf)

### 4) US Department of Health & Human Services, Center for Disease Control & Prevention

*Introduction to Program Evaluation for Public Health Programs: A Self-Study Guide (August 2005);*

This document is a “how to” guide for planning and implementing evaluation activities. The manual is based on CDC's *Framework for Program Evaluation in Public Health*, and is intended to assist state, local, and community managers and staff of public health programs in planning, designing, implementing, and using the results of comprehensive evaluations in a practical way. See <http://www.cdc.gov/GetSmart/program-planner/Introduction.pdf>

### 5) OECD

*Managing and improving compliance*

[http://www.oecd.org/dataoecd/44/19/33818656.pdf?bcsi\\_scan\\_3CB14DF0471C3DC0=0&bcsi\\_scan\\_filename=33818656.pdf](http://www.oecd.org/dataoecd/44/19/33818656.pdf?bcsi_scan_3CB14DF0471C3DC0=0&bcsi_scan_filename=33818656.pdf)

*Recent developments in compliance risk treatments:*

[http://www.oecd.org/dataoecd/36/34/42490764.pdf?bcsi\\_scan\\_3CB14DF0471C3DC0=0&bcsi\\_scan\\_filename=42490764.pdf](http://www.oecd.org/dataoecd/36/34/42490764.pdf?bcsi_scan_3CB14DF0471C3DC0=0&bcsi_scan_filename=42490764.pdf)

**6) Other technical references**

*US General Audit Office, Designing Evaluations (1991):*

This methodology transfer paper addresses the logic of program evaluation designs. See [http://www.gao.gov/special.pubs/10\\_1\\_4.pdf](http://www.gao.gov/special.pubs/10_1_4.pdf)

*US General Accounting Office, Program evaluation—an evaluation culture and collaborative partnerships help build agency capacity (May 2003):*

To assist agency efforts to provide credible information, GAO examined the experiences of five agencies that demonstrated evaluation capacity in their performance reports. See <http://www.gao.gov/new.items/d03454.pdf>